United Policyholders
Empowering the Insured

Is Earthquake Insurance Worth It?

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Earthquakes are one of the natural disasters that are not typically covered under conventional homeowners insurance policies. And while many people think that Californians are the only ones who need to worry about earthquake insurance, the reality is that earthquake risk is far more widespread than that, says Michael T. McRaith, chairman of the Property and Casualty Committee of the National Association of Insurance Commissioners.

“There is exposure to earthquakes throughout the country. Different states have different sources for consumers, but there are significant faults in parts of the country and it’s important to know your risk,” says McRaith.

The United States Geological Society publishes Seismic Hazard Maps, which show fault lines in most areas of the country. In addition, the Society’s website has various predictive tools to help homeowners best assess their area’s risk for earthquakes. Consumers can also contact their state insurance commissioner’s office for specifics on the fault lines that exist in their state, as well as any activity recorded along the fault line. The most significant activity happens in California.

How to buy insurance

In most states, earthquake coverage can be purchased from private insurance companies. However, in California, coverage is available through the California Earthquake Authority.

Earthquake coverage typically costs between $1.50 and $3 per square foot e.g., a 2,000 sq. ft. home may cost between $3,000 and $6,000 to insure), with a typical deductible of 5% to 15% of the home’s value. For example, if the home is insured for $200,000, the deductible would be $10,000 to $30,000, possibly with separate deductibles for the structure and the contents.

But is insurance worth it?

When it comes to earthquake insurance, it can be tough to say, says Amy Back, executive director of United Policyholders, a consumer advocacy group based in San Francisco. The group has found that only 10% of Californians have earthquake insurance, which she believes is the result of high deductibles and premiums.

For example, she says, the typical policy has a 15% deductible. If a dwelling’s insurance limit is

$500,000—not unusual for many areas in the Golden State—policyholders don't get a dime until damage exceeds $75,000 on their homes. If the damage totals $100,000, then the policyholder will get a $25,000 payout.

Measuring that against premiums is where the value is less clear, says Bach. Such a policy may cost $3,000 per year. If the homeowner pays that for 10 years, he or she has already exceeded what would be paid out for $100,000 worth of damage. Of course, if the home is completely destroyed in an earthquake, then the homeowner would get up to $425,000.

During major earthquakes where the affected areas have been declared federal disaster areas by the President, Bach says, the Small Business Administration may step in to help homeowners. However, this is not a sure thing, and has some caveats, she says. Grants may be available for very low-income homeowners, but the majority of the assistance is through low-interest loans of up to $40,000 for contents such as clothing or furniture, as well as automobiles destroyed during the quake.

Loans up to $200,000 to repair or replace primary residences to pre-disaster condition may be available, but may not be used for upgrades.

There are other factors that affect the decision. According to Pete Moraga, spokesperson for the Insurance Information Network of California, if you have a mortgage, the decision may be made for you because you need a method of paying that mortgage if the home is destroyed, unless you're willing to walk away from your home. However, that will severely impact your credit and cause you to forfeit any equity you have built in the home.

Depending on your financial situation and the state in which you live, there may be other consequences to walking away from a damaged home. So, the cost of earthquake insurance, although steep, can protect your investment.